

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 348 – SB 530

March 12, 2009

SUMMARY OF BILL: Authorizes refunds for tobacco tax stamps, when tobacco products are unused or unsalable, without having to return such tobacco products to the manufacturer.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$100,000

Assumptions:

- According to the Department of Revenue (DOR), only the entity stamping the product can request tobacco tax refunds under current law.
- While manufacturers are authorized to purchase and affix tobacco tax stamps to their tobacco products, DOR indicates that it is typically the wholesalers and distributors who pay for and affix the stamps to the products.
- DOR indicates that by removing the provision where wholesalers and distributors are required to return the tobacco products to the manufacturers will incentivize such wholesalers and distributors to request more refunds.
- According to DOR, this is likely to happen when certain brands are removed from the directory listing. In such cases, the wholesaler or distributor would be able to request a refund of tax stamps because the products would no longer be approved for sale in Tennessee. Such wholesalers and distributors would then be able to sell the products in other states where the brand is approved. Given the ability to sell the products elsewhere and make a profit from such sales, the wholesalers and distributors will become incentivized to request more refunds for the purpose of enhancing their total profit margins.
- The fiscal impact of this bill is dependent upon several unknown factors such as the number and quantity of tobacco products removed from the directory listing in the future, the number of distributors and

wholesalers that will pursue tax stamp refunds, and the extent of such refunds allowed. Given the extent of unknown variables, determining a precise estimate for this bill is difficult. However, it is reasonably estimated that such decrease to state revenue would exceed \$100,000 per year.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc